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SUBJECT CODE: 1, MATERIAL NO: 73
ACCOUNTING AND ADVANCED ACCOUNTING (THEORY)_40e
(APPLICABLE FOR OLD AND NEW SYLLABUS)

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INDEX

Chapter No.	Chapter Name	Starting Page No.
1.	Profit or Loss Pre and Post Incorporation	03
2.	Investment Accounts	03
3.	Preparation of Financial Statements	04
4.	Hire purchase and Installment Sale Transactions	05
5.	Departmental Accounts	06
6.	Insurance Claims for Loss of stock and Loss of Profit	07
7.	Cash Flow statement (AS - 3)	07
8.	Partnership Accounts	09
9.	Accounting for Branches including Foreign Branches	11
10.	Accounts from Incomplete records	12
11.	Accounting for Bonus Issue and Rights Issue	13
12.	Redemption of Debentures	14
13.	Redemption of Preference Shares	16
14.	Average Due Date	17
15.	Account Current	17
16.	Self-Balancing Ledgers	18
17.	Financial Statements for Not-for-Profit Organisations	20
18.	Underwriting of Shares and Debentures	21
19.	Internal Reconstruction	21
20.	Liquidation of Companies	22
21.	Financial Statements of Insurance Companies	23
22.	Financial Statements of Banking Companies	24
23.	Buy-Back of Securities and Equity Shares with differential Rights	28
24.	Accounting for Employee Stock Option Plan	28
25.	Amalgamation of Companies	29
26	Non-Banking Financial Institutions	29
27.	Mutual Funds	31
28.	Consolidated Financial Statements	34
29.	Valuation of Goodwill	35

1. PROFIT OR LOSS PRE AND POST INCORPORATION

Q.No.1. Write short notes on Pre-Incorporation Profits. (A) (N16 - 5M)

1. **Takeover Date vs. Incorporation Date:** The Company may take over an existing business, as a Going Concern, from a date prior to the Company's incorporation.
2. **Pre-Incorporation Profits:** The Profits of the Business prior to the date of incorporation are called Pre-Incorporation Profits. These are "Capital" in nature and should not be used for distribution as Dividend.
3. **Treatment:** Pre-Incorporation Profits / (Losses) are treated as under:

Pre-Incorporation Profits	Pre-Incorporation Losses
It is transferred to "Capital Reserve", (i.e. capitalized), and may be used for:	It is treated as a part of **Business Acquisition Cost**, i.e. - "**Goodwill**". Such Goodwill may be dealt with as under:
a) Writing off Goodwill on Acquisition, if any.	**a)** Written off against Post Incorporation Profits,
b) Writing off Preliminary Expenses,	**b)** Added to Goodwill on Acquisition, i.e. excess of Purchase Consideration over Value of Net Assets taken over,
c) Writing down Overvalued Assets, if any.	**c)** Set off against Capital Profits.
d) Issuing Bonus Shares,	
e) Paying up partly-paid Shares.	

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4. **Computation:**
   - **a)** For ascertaining Pre & Post-Incorporation Profits, the Incomes and Expenses of the Company are apportioned between Pre & Post-Incorporation Periods, on suitable basis, e.g. Time Ratio, Sales Ratio, etc.
   - **b)** Expenses directly relating to Post-Incorporation Period, e.g. Directors' Salary, etc. should not be apportioned, but should be identified directly with the Post-Incorporation Period only.

Alternative Questions:

1. **Define Pre-incorporation profits in brief. (NEW SM)**

A. Refer above answer

2. INVESTMENT ACCOUNTS

Q.No.1. Define Investment? Explain Scope of AS 13? (B) (NEW SM)

Refer AS-13 in Accounting standards Ravi kanth Miriyala sir book.

Q.No.2. Define Investment and Investment Property? (A)

Refer problematic material.

Q.No.3. How will you classify the investments as per AS 13? Explain in Brief. (A) (NEW SM)

Refer problematic material

Q.No.4. Explain Re classification as per AS 13. (A) (NEW SM)

Refer AS-13 in Accounting standards Ravi Kanth Miriyala sir book.

Q.No.5. Explain Cost of investment. (C) (NEW SM)

Refer AS-13 in Accounting standards Ravi Kanth Miriyala sir book.

Q.No.6. Explain Classification of Investment based upon the Income. (A) (NEW SM)

Refer problematic material.

Q.No.7. Explain briefly about disposal of Investments. (C) (NEW SM)

1. On disposal of an investment, the **difference between** the **carrying amount** and **the net disposal proceeds** recognised in the profit and loss statement.
2. When a part of the holding of an individual investment is disposed, the carrying amount is required to be allocated to that part on the basis of the average carrying amount of the total holding of the investment.
3. In respect of shares, debentures and other securities held as stock-in-trade, the cost of stocks disposed of may be determined by applying an appropriate cost formula (e.g., first-in, first-out (FIFO), average cost, etc.). These cost formulae are the same as those specified in AS 2, Valuation of Inventories.
4. If transaction on cum interest basis sale proceeds reduced to the extent of accrued interest (from the date of last payment to date of sale).
5. If transaction on Ex-interest basis accrued interest need not to reduce from sale proceeds.
6. Variable Income Bearing Securities the entire amount of sale proceeds should be credited in the capital column of investment account, unless the amount of accrued dividend can be specifically established.

MASTER MINDS

3. PREPARATION OF FINANCIAL STATEMENTS

Q.No.1. What are the requisites in preparation and maintenance of books of accounts? (B) (NEW SM)

- It should give a true and fair view of the state of the affairs of the company.
- It should explain the transactions effected both at the registered office and its branches.
- Books should be kept on accrual basis and according to double entry system of accounting.

Q.No.2. What are the requisites of financial statements and what should consider in preparation? (B) (NEW SM)

It should give a true and fair view of the state of affairs of the company as at the end of the financial year.

<u>**Points to be kept in mind while preparing final accounts**</u>:

- Requirements of Schedule III to the Companies Act.
- Other statutory requirements.

- Accounting Standards notified by Ministry of Corporate Affairs.
- Statements and Guidance Notes issued by the Institute of Chartered Accountants of India (ICAI).

Q.No.3. Explain briefly about dividend. (B) (NEW SM)

Refer problematic material.

Q.No.4. Explain the salient features of DDT. (B) (NEW SM)

Refer problematic material.

4. HIRE PURCHASE AND INSTALMENT SALE TRANSACTIONS

Q.No.1. Define the terms a) Hire Vendor, b) Hire Purchaser, c) Cash Price, d) Down payment, e) Hire Purchase Price, f) Hire Purchase Installment. (C) (NEW SM)

Refer problematic material

Q.No.2. What is Hire Purchase accounting and explain its methods? (C) (NEW SM, N18 (O) - 4M)

Refer problematic material

Q.No.3. Difference between H.P sales and Installment sales? (A) (NEW SM, M17 - 4M, N14 - 4M)

Basis of Distinction	Hire Purchase	Instalment Sales
Governing Act	It is governed by Hire Purchase Act, 1972.	It is governed by the Sale of Goods Act, 1930.
Nature of Contract	It is an agreement of hiring.	It is an agreement of sale.
Passing of Title (ownership)	The title to goods passes on last payment.	The title to goods passes immediately as in the case of usual sale.
Right to Return goods	The hirer may return goods without further payment except for accrued instalments.	Unless seller defaults, goods are not returnable.
Seller's right to repossess	The seller may take possession of the goods if hirer is in default.	The seller can sue for price if the buyer is in default. He cannot take possession of the goods.
Right of Disposal	Hirer cannot hire out sell, pledge or assign entitling transferee to retain possession as against the hire vendor.	The buyer may dispose off the goods and give good title to the bona fide purchaser.
Responsibility for Risk of Loss.	The hirer is not responsible for risk of loss of goods if he has taken reasonable precaution because the ownership has not yet transferred.	The buyer is responsible for risk of loss of goods because of the ownership has transferred.
Name of Parties involved	The parties involved are called Hirer and Hire vendor.	The parties involved are called buyer and seller.
Component other than cash price.	Component other than Cash Price included in installment is called Hire charges.	Component other than Cash Price included in Installment is called Interest.

Alternative Questions:

1. What are the differences between Hire Purchase and Installment System? (NEW SM)

A. Refer above answer

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Q.No.4. What is meant by Hire purchase transactions? What are the specific features of hire purchase transactions? (A) (NEW SM, N17 - 4M)

Refer problematic material

5. DEPARTMENTAL ACCOUNTS

Q.No.1. Explain the types of Departments? (B) (NEW SM)

There are two types of departments: Dependent and Independent Departments.

a) **Independent Departments:** Departments which work independently of each other and have negligible inter department transfers are called Independent Departments.

b) **Dependent Departments:**

i) Departments which transfer goods from one department to another department for further processing are called dependent departments.

ii) Here, the output of one department becomes the input for the other department.

iii) These transfers may be done at cost or some pre-decided selling price. The price at which this is done is known as transfer price.

iv) In these departments, unloading is required if the transfer price is having a profit element.

Q.No.2. What are the advantages of departmental accounting? (A) (NEW SM)

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The main advantages of departmental accounting are as follows:

a) **Evaluation of performance:** The performance of each department can be evaluated separately on the basis of trading results. An attempt may be made to push up the sales of that department which is earning maximum profit.

b) **Growth potential of each department:** The growth potential of a department as compared to others can be evaluated.

c) **Justification of capital outlay:** It helps the management to determine the justification of capital outlay in each department.

d) **Judgement of efficiency:** It helps to calculate stock turnover ratio of each department separately, and thus the efficiency of each department can be revealed.

e) **Planning and control:** Availability of separate cost and profit figures for each department facilitates better control. Thus effective planning and control can be achieved on the basis of departmental accounting information.

<u>Alternative Questions:</u>

1. **Explain the significance of having departmental accounts for a business entity. (NEW SM)**

A. Refer side headings only.

Q.No.3. Explain the Methods of Departmental Accounting? (B) (NEW SM)

There are two methods of keeping departmental accounts:

A. **Accounts of all departments are kept in one book only:**

To prepare such accounts, it will be necessary first, for the income and expenditure of department to be separately recorded in subsidiary books and then for them to be accumulated under separate heads in a ledger or ledgers. This may be done by having columnar subsidiary books and a columnar ledger.

B. Separate set of books are kept for each department

A separate set of books may be kept for each department, including complete stock accounts of goods received from or transferred to other departments or as also sales.

Q.No.4. Explain the basis of allocation of common expenditure among different departments? (or) How will you allocate the expenses among different departments? (B) (NEW SM, M16 - 4M)

Refer problematic material

Q.No.5. Explain the basis of Inter-Departmental Transfers. (B) (NEW SM)

Refer problematic material

Q.No.6. Explain briefly Memorandum stock and Memorandum markup Account method. (A) (NEW SM)

Refer problematic material

Q.No.7. Explain briefly Elimination of unrealized profit. (B) (NEW SM)

Refer problematic material

6. INSURANCE CLAIMS FOR LOSS OF STOCK AND LOSS OF PROFIT

MASTER MINDS

Q.No.1. Explain the significance of 'Average Clause' in a fire insurance policy. (A) (NEW SM)

Refer problematic material

Q.No.2. Define the following terms: i) Indemnity Period ii) Standard Turnover. (A) (NEW SM)

Refer problematic material

7. CASH FLOW STATEMENT (AS 3)

Q.No.1. Define Cash, Cash Equivalent, Cash flow. (A)

Refer AS-3 in Accounting standards Ravi Kanth Miriyala sir book.

Q.No.2. Explain Classification of activities (with two examples) as suggested in AS 3, to be used for preparing a cash flow statements. (B) (NEW SM)

Refer problematic material

Q.No.3. Explain the Direct method of reporting Cash Flows from Operating Activities. (B)

Refer problematic material

Q.No.4. Explain the Indirect Method of reporting Cash Flows from Operating Activities. (B)

Refer problematic material

Q.No.5. Explain the difference between direct and indirect methods of reporting cash flows from operating activities with reference to AS 3 Accounting Standard. (B)

As per Para 18 of AS 3 (Revised) on Cash Flow Statements, an enterprise should report cash flows from operating activities using either:

a) **The direct method**, whereby major classes of gross cash receipts and gross cash payments are disclosed; or

b) **The indirect method**, whereby net profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

Q.No.6. What is the significance (or) benefits of cash flow statement? Explain in brief. (A) (NEW SM)

Refer problematic material

MASTER MINDS

Q.No.7. What are the main features of the Cash Flow Statement? Explain with special reference to AS 3. (A) (NEW SM)

According to AS 3 on "Cash Flow Statement", cash flow statement deals with the provision of information about the historical changes in cash and cash equivalents of an enterprise during the given period from operating, investing and financing activities.

Cash flows from operating activities can be reported using either (a) the direct method, or (b) the indirect method.

A cash flow statement when used in conjunction with the other financial statements, provides information that enables users to evaluate the changes in net assets of an enterprise, its financial structure (including its liquidity and solvency), and its ability to affect the amount and timing of cash flows in order to adapt to changing circumstances and opportunities.

Q.No.8. What are the differences between Cash Flow Statement and Funds Flow Statement? (A)

Differences between Cash Flow and Funds Flow Statement

1.	Cash flow statement deals with the changes in cash.	Funds Flow Statement deals with the changes in working capital position between two points of time.
2.	Cash flow statement can be prepared by direct or indirect method.	There is no such type of direct or indirect method for preparation of fund flow statement.
3.	Cash flow statement records only inflow and outflow of cash.	Funds flow statement records sources and application of funds.
4.	Cash flow statement contains opening as well as closing balances of cash and cash equivalents.	Funds flow statement does not contain such balances.
5.	There is no such type of preparation in cash flow statement.	A statement of change in working capital is prepared in fund flow statement.

8. PARTNERSHIP ACCOUNTS

Q.No.1. What are the circumstances leading to Dissolution of Partnership agreement? (B) (NEW SM)

Refer problematic material.

Q.No.2. What are the circumstances leading to dissolution of firm? (B) (NEW SM)

A firm stands dissolved in the following cases:

a) The partners agree that the firm should be dissolved;

b) All partners except one become insolvent;

c) The business becomes illegal;

d) In case of partnership at will, a partner gives notice of dissolution; and

e) The court orders dissolution in some circumstances (will be discussed in Q.No.3).

Q.No.3. What are circumstances court orders dissolution of firm? (B) (NEW SM)

The court has the option to order dissolution of a firm in the following circumstances:

a) Where a partner has become of unsound mind;

b) Where a partner suffers from permanent incapacity;

c) Where a partner is guilty of misconduct of the business;

d) Where a partner persistently disregards the partnership agreement;

e) Where a partner transfers his interest or share to a third party;

f) Where the business cannot be carried on except at a loss; and

g) Where it appears to be just and equitable.

MASTER MINDS

Q.No.4. What are the consequences of Dissolution? (B) (NEW SM)

On the dissolution of a partnership, firstly, the assets of the firm, including goodwill, are realized. Then the amount realized, is applied first towards repayment of liabilities to outsiders and loans taken from partners; afterwards the capital contributed by partners is repaid and, if there is still surplus, it is distributed among the partners in their profit-sharing ratio.

According to the provisions contained in section 48 of the Partnership Act, upon dissolution of partnership, the mutual rights of the partners, unless otherwise agreed upon, are settled in the following manner:

a) Losses including deficiencies of capital are paid, first out of profits, next out of capital and, lastly, if necessary, by the partners individually in the proportion in which they are entitled to share profits.

b) The assets of the firm, including any sums contributed by the partners to make up deficiencies of capital have to be applied in the following manner and order:

   i) In paying the debts of the firm to third parties;

   ii) In paying to each partner ratably what is due to him from the firm in respect of advances as distinguished from capital;

   iii) in paying to each partner what is due to him on account of capital; and

   iv) The residue, if any, to be divided among the partners in the proportion in which they are entitles to share profits.

Q.No.5. What are the consequences of insolvency of a partner? (A) (NEW SM)

If a partner goes insolvent then the following are the consequences:

1. The partner adjudicated as insolvent ceases to be a partner on the date on which the order of adjudication is made.
2. The firm is dissolved on the date of the order of adjudication unless there is a contract to the contrary.
3. The estate of the insolvent partner is not liable for any act of the firm after the date of the order of adjudication.
4. The firm cannot be held liable for any acts of the insolvent partner after the date of the order of adjudication.

Q.No.6. W paid a premium to other partners of the firm at the time of his admission to the firm, with a condition that the will not be dissolved before expiry of five years. The firm is dissolved after three years. W claims refund of premium.
a) List the criteria for the calculation of the amount of refund.
b) Also list any two conditions when no claim in this respect will arise. (A) (OLD PM)

If the firm is dissolved before the term expires, as is the case, W being a partner who has paid premium on admission will have to be repaid / refunded.

MASTER MINDS

The criteria for calculation of refund amount are:

i) Terms upon which admission was made,

ii) The time period for which it was agreed that the firm will not be dissolved,

iii) The time period for which the firm has already been in existence.

No claim for refund will arise if:

1. The firm is dissolved due to death of a partner,
2. If the dissolution of the firm is basically because of misconduct of W,
3. If the dissolution is through an agreement and such agreement does not have a stipulation for refund of premium.

Q.No.7. Explain Garner v/s Murrary rule applicable in the case of partnership firms. State, when is this rule not applicable. (A) (OLD PM)

Refer problematic material.

Q.No.8. Under what circumstances, an LLP can be wound up by the Tribunal? (A) (OLD PM, N17 - 4M, M17 - 4M, M15 - 4M)

Refer problematic material.

Q.No.9. Can a partner be called upon to pay the liability of the LLP? If yes, under what circumstances? (or) Explain the limitations of liability of Limited liability partnership (LLP) and its partners. (B) (OLD PM, M18 (N) - 5M, N16 - 4M)

Refer problematic material.

9. ACCOUNTING FOR BRANCHES INCLUDING FOREIGN BRANCHES

Q.No.1. What is a branch? Classify branches as per accounting point of view? (B) (NEW SM)

Refer problematic material

Q.No.2. Distinction between Branch Accounts and Departmental Accounts. (A) (NEW SM)

Basis of distinction	Branch Accounts	Departmental Accounts
Maintenance of Accounts	Branch accounts may be maintained either at branch or at head office.	Departmental accounts are Maintained at one place only.
Allocation of common Expenses	No allocation problem arises since the expenses in respect of each branch can be identified.	Common expenses are distributed among the departments concerned on some equitable basis considered suitable in the case
Reconciliation	Reconciliation of head office and branch accounts is necessary in case of Branches maintaining independent accounting records at the end of the accounting year.	No such problem arises
Conversion of foreign currency figures	At the time of finalization of accounts, conversion of figures of foreign branch is necessary.	No such problem arises in departmental accounts

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Q.No.3. Explain the differences between dependent and independent branches. (B) (NEW SM)

Basis	Dependent branch	Independent branch
Meaning	If business policies and administration of branch wholly controlled by head office and branch accounts are also maintained by head office	Branch Maintains its entire books of accounts.
Information from branch	Branch sends periodic reports based on which accounting records maintained by H.O.	Branch sends Trial balance, Trading and Profit and loss account copies to head office
Reconciliation	Reconciliation is not required	Reconciliation is required at the end of the period b/w branch account in H.O books and Head office account in branch books

Q.No.4. What are significant types of dependent branches? (A) (NEW SM)

a) A branch set up **merely for booking orders** that are executed by the head office. Such a branch only transmits orders to the head office;

b) A branch established at a **commercial center for the sale of goods** supplied by the head office, and under its direction all collections are made by the H.O.; and

c) A branch **for the retail sale of goods**, supplied by the head office

Q.No.5. Why goods are marked on invoice price by the head office while sending goods to the branch? (A) (OLD PM)

Goods are marked on invoice price to achieve the following objectives:

a) To keep secret from the branch manager, the cost price of the goods and profit made, so that the branch manager may not start a rival and competitive business with the concern; and

b) To have effective control on stock i.e. stock at any time must be equal to opening stock plus goods received from head office minus sales made at branch.

c) To dictate pricing policy to its branches, as well as save work at branch because prices have already been decided.

Q.No.6. What are salient features of accounting system of an Independent branch? (A) (NEW SM)

Salient features of accounting system of an independent branch are as follows:

1. Branch maintains its entire books of account under double entry system.
2. Branch opens in its books a Head Office account to record all transactions that take place between Head Office and branch. The Head Office maintains a Branch account to record these transactions.
3. Branch prepares its Trial Balance, Trading and profit and loss Account at the end of the accounting period and sends copies of these statements to Head Office for incorporation.
4. After receiving the final statements from branch, Head Office reconciles between the two - Branch account in Head Office books and Head Office account in Branch books.
5. Head office passes necessary journal entries to incorporate branch trial balance in its books.

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Q.No.7. What are possible reasons between Branch A/c in Head office books and Head office A/c in Branch books on the closing date. (B) (NEW SM)

Refer problematic material

10. ACCOUNTS FROM INCOMPLETE RECORDS

Q.No.1. What is meant by Single entry System? What are the types of procedures adopted for this system? (B) (NEW SM)

Refer problematic material.

Q.No.2. Explain the features of single entry system. (A) (NEW SM)

Refer problematic material.

Q.No.3. Differences between Statement of Affairs and Balance sheet. (A) (NEW SM)

Refer problematic material

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11. ACCOUNTING FOR BONUS ISSUE & RIGHT ISSUE

Q.No.1. What is meant by Bonus issue? Explain its related provisions as per the Companies Act, 2013. (A) (NEW SM, D08)

Bonus shares:

- Bonus Issue means an offer of free additional shares to existing shareholders who are holding with fully paid-up shares. A company may decide to distribute further shares as an alternative to increase the dividend pay-out.
- In other words, Bonus shares are shares issued to existing shareholders free of cost by Capitalizing free reserves.
- But company can issue bonus shares when articles of association authorize the same. In case the company issuing bonus shares is a listed company, the guidelines issued by SEBI must be complied with.
- An issuer, announcing a bonus issue after the approval of its BOD, and not requiring shareholders' approval for capitalisation of profits or reserves for making the bonus issue, shall implement the bonus issue within fifteen days from the date of approval of the issue by its BOD.

Section 63 of the Companies Act, 2013 deals with the issue of bonus shares. According to Sub-section (1) of Section 63, a company may issue fully paid-up bonus shares to its members, in any manner whatsoever, out of-

i) its free reserves;

ii) the securities premium account; or

iii) the capital redemption reserve account:

Provided that no issue of bonus shares shall be made by capitalising reserves created by the revaluation of assets.

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Q.No.2. Explain the financial effects of a further issue of equity shares on the market value of the share. (B) (NEW SM)

Refer problematic material

Q.No.3. What are the advantages and disadvantages of a rights issue? (A) (NEW SM)

Rights issue is an issue of rights to a company's existing shareholders that entitles them to buy additional shares directly from the company in proportion to their existing holdings, within a fixed time period.

Advantages of right Issue:

1. Right issue enables the existing shareholders to maintain their proportional holding in the company and retain their financial and governance rights.
2. In functioning capital markets, the right issue necessarily leads to dilution in the value of share.
3. Right issue is a natural hedge against the issue expenses normally incurred by the company in relation to public issue.
4. Right issue has an image enhancement effect, as public and shareholders view it positively.
5. The chance of success of a right issue is better than that of a general public issue and is logistically much easier to handle.

Disadvantages of right Issue:

1. The right issue invariably leads to dilution in the market value of the share of the company.
2. The attractive price of the right issue should be objectively assessed against its true worth to ensure that you get a bargained deal.

Q.No.4. Distinguish between Bonus Shares and Right Shares. (A) (J11 - 4M)

Following are the main points of distinction between bonus shares & right shares:

Basic	Bonus shares	Right shares
1. Meaning	Bonus shares are shares issued by a company free of cost to its existing shareholders on a prorate basis out of free reserve.	When company issues further shares to existing shareholder in ratio of their holding such issue is known as right issue.
2. Cash flow	In case of bonus issue there is no cash flow	In case of right issue there is cash inflow to the company.
3. Consideration	Company does not receive any consideration in case of bonus issue	Company receives consideration as shares are issued against cash.
4. Authorization	Bonus issue is made on the recommendation of the board and authorization from general meeting from the company	In case of right issue authorization from members through ordinary or special resolution is necessary.
5. Market value	Issue of bonus shares does not affect the market value of the company.	Right issue of shares affects the market value of the company
6. Section	It is governed by Section 63 of the companies act, 2013	It is governed by Section 62 of the companies act, 2013

12. REDEMPTION OF DEBENTURES

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Q.No.1. What is a debenture? What are the types of debentures? (C) (NEW SM)

A debenture is an instrument issued by a company under its seal, acknowledging a debt and containing provisions as regards repayment of the principal and interest.

Types of Debentures

- Security
  - Secured
  - Unsecured
- Convertibility
  - Convertible
  - Non-Convertible
- Permanence
  - Redeemable
  - Irredeemable
- Negotiability
  - Registered
  - Bearer
- Negotiability
  - 1st Mortgage
  - 2nd Mortgage

Q.No.2. What is meant by redemption of debentures? (B) (NEW SM)

Refer problematic material

Q.No.3. What are the methods of redemption of debentures? (or) Mention the ways by which redeemable debentures may be redeemed under Companies Act, 2013. (B) (NEW SM)

Refer problematic material

Q.No.4. What are the provisions of companies Act, 2013 on redemption of debentures? (B) (NEW SM)

Refer problematic material

Q.No.5. What are the modes of investment of DRR? (B) (NEW SM)

Every company required to create DRR should before the 30th day of April of each year, deposit or invest, as the case may be, a sum which should not be less than 15% of the amount of its debentures maturing during the year ending on the 31st day of March next following in any one or more of the following methods, namely:

a) in deposits with any scheduled bank, free from charge or lien;

b) in unencumbered securities of the Central Government or of any State Government;

c) in unencumbered securities mentioned in clauses (a) to (d) and (ee) of Section 20 of the Indian Trusts Act, 1882;

d) in unencumbered bonds issued by any other company which is notified under clause (f) of Section 20 of the Indian Trusts Act, 1882;

The amount deposited or invested, as the case may be, above should not be utilised for any purpose other than for the repayment of debentures maturing during the year referred to above, provided that the amount remaining deposited or invested, as the case may be, should not at any time fall below 15% of the amount of debentures maturing during the 31st day of March of that year.

Q.No.6. Explain briefly about Debenture Redemption Reserve. (B) (NEW SM)

a) A company issuing debentures is required to create a debenture redemption reserve account out of the profits available for distribution of dividend

b) Amounts credited to such account cannot be utilized by the company except for redemption of debentures.

c) Such an arrangement would ensure that the company will have sufficient liquid funds for the redemption of debentures at the time they should fall due for payment.

d) An appropriate amount is transferred from profits every year to Debenture Redemption Reserve and its investment is termed as Debenture Redemption Reserve Investment.

e) These investment earn certain amount of income i.e. interest which is reinvested together with the fixed appropriated amount for the purpose in subsequent years.

f) In last year, the interest earned and the appropriated fixed amount are not invested. In fact, at this stage the Debenture Redemption Reserve Investments are encashed and the amount so obtained is used for the redemption of debentures.

g) Any profit or loss made on the encashment of Debenture Redemption investments is also transferred to Debenture Redemption Reserve Account.

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Q.No.7. In the Cash Flow Statement, "Conversion of Debt into Equity is a Non-Cash Transaction." Comment. (C)

1. Conversion (in part or full) of Debentures into Shares is one of the methods of redemption.

2. Conversion of Debt into Equity is a Non - Cash Item, Therefore, excluded from the Cash Flow Statement prepared by the Entity. Such transactions should be disclosed in the Notes to the Financial Statements in a way that provides all the relevant information.

Q.No.8. Comment on adequacy of Debenture Redemption Reserve (DRR) w.r.t following:
Debenture issued by:
i) All India financial institutions regulated by reserve bank of India and banking companies.
ii) For other financial institutions within the meaning given in the companies act.
iii) For debentures issued by NBFCs registered with the RBI.
iv) For debentures issued by other companies including manufacturing and infrastructure companies. (A) (M15 - 4M)

Refer problematic material

13. REDEMPTION OF PREFERENCE SHARES

Q.No.1. What is the purpose of issuing redeemable preference shares? (A) (NEW SM)

A company may issue redeemable preference shares because of the following:

a) It is a proper way of raising finance in a dull primary market.

b) A company may face difficulty in raising share capital, as its shares are not traded on the stock exchange. Potential investors, hesitant in putting money into shares that cannot easily be sold, may be encouraged to invest if the shares are redeemable by the company.

c) The preference shares may be redeemed when there is a surplus of capital and the surplus funds cannot be utilized in the business for profitable use.

Q.No.2. What are the methods of redemption of preference shares? (B) (NEW SM)

Refer problematic material.

Q.No.3. What are the advantages and disadvantages of redemption of Preference shares by issue of fresh equity shares? (A) (NEW SM, N18 (N) - 5M)

Advantages:

a) No cash outflow of money - now or later.

b) New equity shares may be valued at a premium.

c) Shareholders retain their equity interest.

Disadvantages:

a) There will be dilution of future earnings.

b) Share-holding in the company is changed.

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Q.No.4. What are the applications of securities premium account? (A) (NEW SM)

For securities premium account, Section 52 of the Companies Act, 2013 provides that the securities premium account may be applied by the company;

a) Towards issue of un-issued shares of the company to be issued to members of the company as fully paid bonus securities.

b) To write off preliminary expenses of the company.

c) To write off the expenses of, or commission paid, or discount allowed on any of the securities or debentures of the company.

d) To provide for premium on the redemption of redeemable preference shares or debentures of the company.

e) For the purchase of its own shares or other securities.

Q.No.5. What are the advantages and dis advantages of redemption of preference shares by capitalization of undistributed profits? (A) (NEW SM)

When shares are redeemed by utilising distributable profit, an amount equal to the face value of shares redeemed is transferred to Capital Redemption Reserve Account by debiting the distributable profits. In other words, some of the distributable profits are kept aside to ensure that it can never be distributed to shareholders as dividend.

Advantages:

a) No change in the percentage of equity share-holding of the company;

b) Surplus funds can be used.

Disadvantages:

a) The disadvantage of redemption of preference shares by capitalisation of undistributed profits is that there may be a reduction in liquidity.

Q.No.6. What are the provisions of the Companies Act, 2013 related with redemption of preference shares? Explain in brief. (B) (NEW SM)

Refer problematic material.

Q.No.7. What are the conditions which must be fulfilled for redemption of preference shares? (A) (NEW SM, J11)

Refer problematic material.

14. AVERAGE DUE DATE

Q.No.1. Define Average Due Date. List out the various instances when Average Due Date can be used. (A) (OLD PM)

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Average Due Date is a break-even date on which the net amount payable can be settled without causing loss of interest either to the borrower or the lender.

Few instances where average due date can be used:

a) Calculation of interest on drawings made by the proprietors or partners of a business firm at several points of time.

b) Settlement of accounts between a principal and an agent.

c) Settlement of contra accounts, that is, A and B sell goods to each other on different dates.

15. ACCOUNT CURRENT

Q.No.1. What is an account current? Explain situations when account current is prepared. (A) (OLD SM)

An Account Current is a running statement of transactions between parties for a given period of time and includes interest allowed or charged on various items. It takes the form of a ledger account. Some of the situations when account current is prepared are:

1. It is prepared when frequent transactions regularly take place between two parties.

2. A consignee of goods can also prepare an Account Current, if the latter is to settle the account at the end of the consignment & interest is chargeable on outstanding balance.

3. An Account Current also is frequently prepared to set out the transactions taking place between a banker and his customer.

4. It is prepared when two or more persons are in joint venture and each co-venture is entitled to interest on their investment. Also, no separate set of book is maintained for it.

Q.No.2. What are the ways to prepare Account current? (B) (OLD PM)

There are three ways of preparing an Account Current:

- With the help of interest tables
- By means of products
- By means of products of balances

Q.No.3.What are methods available to compute number of days? (A) (OLD SM)

Usually any of the following two methods is used for calculating the number of days.

1. **Forward Method:** Under this method, the number of days are calculated from the due date of the transaction to the date of closing the account.
2. **Backward Method (or) Epoque Method:** Under this method, the number of the days are calculated from the opening date of statement to the due date of transaction.

16. SELF - BALANCING LEDGERS

Q.No.1. Write short note on Self-balancing ledgers. (A) (OLD SM, OLD PM, N17 - 4M)

MASTER MINDS

a) It is a system of ledger keeping where ledgers are classified as sales ledger, Bought ledger and general ledger.

b) Self-Balancing system is a system where by separate trial balance can be taken out from each ledger.

c) General Ledger Adjustment (GLA) A/c will be maintained in each of sales and bought ledger.

d) GLA A/c is the reverse of total debtors a/c in sales ledger and total creditors a/c in bought ledger.

e) These adjustment accounts are known as control accounts.

f) The object of the system is to identify errors and to facilitate their quick detection with minimum effort.

Q.No.2. State with reasons, whether the following statements are true or false: (B) (OLD PM)
a) Under the self-balancing system the general ledger adjustment account is always opened in the general ledger.
b) Purchase Ledger Adjustment Account under sectional balancing system is also known as Creditors Ledger Control Account.
c) In self-balancing system, whenever a balance is transferred from an account in one ledger to that in another, only one entry is recorded through the respective ledger.

a) **False:** Under the self-balancing system, general ledger adjustment account is opened in each of the sales ledger and purchases ledger. In general ledger, two adjustment accounts namely sales ledger adjustment account and purchases ledger adjustment accounts are maintained.

b) **True:** Purchase ledger adjustment account is in reality, total creditors account, hence also known as creditors ledger control account under sectional balancing system.

c) **False:** Whenever a balance is transferred from one account in one ledger to that in another, the entry is recorded through the journal. Also an additional entry is made in the control accounts for recording the corresponding effect.

Q.No.3. Distinguish between Self-Balancing and Sectional Balancing System. (A) (OLD SM, OLD PM)

Basis	Self-Balancing	Sectional Balancing
Classification of ledgers	Separate ledger is maintained for different type of transaction	Only total account for each of the subsidiary ledgers is opened in the general ledger
Double entry	Under this system, a general ledger adjustment account is prepared in the debtors' ledger as well as in creditor's ledger to complete double entry.	A separate trial balance can't be made from these ledgers as double entry is not completed.
Accuracy of accounts	Correctness of individual account balances in each ledger will be verified by extracting its balances by agreeing them with balance of control accounts.	Accuracy of individual customer's/ supplier's account can be checked by comparing the total of their balances with balances of total debtor's /creditor's account in general ledger.

Q.No.4. Explain advantages of self-balancing ledgers. (B) (OLD SM)

a) **Fixation of responsibility of ledger keeper:** Self-balancing system fixes the responsibility of the ledger keeper, as to the balancing of the ledger under his/her charge and the person responsible for the mistake can be called upon to work overtime to locate it. Errors are localised.

b) **Arithmetical accuracy:** Arithmetical accuracy of each ledger can be proved independently.

c) **Preparation of interim accounts:** It enables preparation of interim accounts without personal ledgers having to be balanced.

d) **Availability of total figures:** The figure of total debtors or creditors is readily available.

e) **Internal check:** It is instrumental in strengthening the internal check.

f) **Secrecy:** Where it is desired not to reveal the content of the private ledger to the clerical staff, the balances on this ledger can be directly incorporated in total figure in the trail balance.

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Q.No.5. Explain advantages of sectional balancing system. (B) (OLD SM)

Advantages of using control accounts under the system are as follows:

1. **Check on accuracy of entries:** Control accounts provide a check on accuracy of entries made in personal accounts in debtor's ledger as well as creditor's ledger.
2. **Location of errors:** A regular comparison of balances of control accounts with individual balances will quickly fix up the errors.
3. **Preparation of final accounts:** Control accounts assist in preparation of final accounts by providing the total balances.
4. **Calculation of missing figures:** Control accounts help in computation of missing figures.
5. **Internal check:** Control accounts provide an interim check over postings in different accounts.

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17. FINANCIAL STATEMENTS FOR NOT - FOR - PROFIT ORGANISATIONS

Q.No.1. What is a Not-For-Profit organization. What comprises financial statements of Not for profit organization. (B) (OLD SM)

A not-for-profit organization is a legal and accounting entity that is operated for the benefit of the society as a whole, rather than for the benefit of a sole proprietor or a group of partners or shareholders. Financial Statements of such organizations consists of:

a) Receipts and Payments Account

b) Income and Expenditure Account

c) Balance Sheet

Q.No.2.Differentiate Receipts and Payments with Income and Expenditure account. (A) (OLD PM)

Receipts & Payments A/c	Income & Expenditure A/c
Receipts and Payments Account is an elementary form of account consisting of a classified summary of cash receipts and payments over a certain period.	Income and Expenditure Account resembles a Profit and Loss Account and serves the same function in respect of a non-profit making concern
The receipts are entered on the left hand side and payments on the right hand side i.e. same sides as those on which they appear in cash book.	The Expenses are entered on the left hand side and Incomes on the right hand side i.e. same sides as those on which they appear in P & L A/c.
All the receipts and payments whether of revenue or capital nature are included in this account.	Income and Expenditure Account contains all the items of income and expenditure relevant to the period of account, whether received or paid out as well as that which have fallen due for recovery or payment.

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Q.No.3. Features of Receipts and payments account. (A) (OLD SM)

a) It is the summary of the cash and bank transactions like cash book, all the receipts (capital or revenue) are debited, similarly, all the expenditures (capital or revenue) are credited.

b) It starts with opening cash and bank balances and also ends with their closing balances.

c) This account is usually not a part of the double entry system.

d) It includes all cash and bank receipts and payments, whether they are related to current, past or future periods.

e) Surplus or deficit for an accounting period cannot be ascertained from this account, since, it shows only the cash position an excludes all non-cash items.

Q.No.4. Limitations of Receipts and payments account. (B) (OLD SM)

- Balance at the end as compared to those in beginning does not truly represent surplus or deficiency for the year.
- Since receipts and payments account includes items relating to all periods and capital and revenue items. So it is difficult to ascertain whether for a current year income is sufficient to meet the current expenses.

Q.No.5. Features of Income and Expenditure Account. (A) (OLD SM)

a) It is a revenue account prepared at the end of the financial period for finding out the surplus or deficit of that period.

b) It is prepared by matching expenses against the revenue of that period concerned.

c) Both cash and non-cash items, such as depreciation, are taken into consideration.

d) All capital expenditures and incomes are excluded.

e) Only current years' income and expenses are considered.

Q.No.6. Explain technique of maintaining Fund Accounts. (B) (OLD SM)

a) Generally Non-business organizations maintain separate funds for any specific activity. Ex: Building fund for construction of building.

b) Fund ledgers are self-balancing in nature.

c) All receipts in related specific activities are separated from the main accounts and shown in the Fund a/c. Any expenditure incurred in relation to the specific activity made out of this fund.

d) Only after the completion of the activity like building construction, the asset is recognised in the general balance sheet and consequently that portion of fund which has been utilised should be transferred to general fund.

e) Depreciation can be charged on such funds only after its completion or acquisition.

MASTER MINDS

18. UNDERWRITING OF SHARES AND DEBENTURES

Q.No.1. Write short notes on firm underwriting. (A) (NEW SM)

Refer problematic material

Q.No.2. Explain complete underwriting and partial underwriting. (C)

Refer problematic material

Q.No.3. Write a short note on Allocation of unmarked application. (C) (NEW SM)

Refer problematic material

19. INTERNAL RECONSTRUCTION

Q.No.1. Difference Between Internal and External Reconstruction. (A) (NEW SM)

Refer problematic material

Q.No.2.What are the methods of internal reconstruction generally followed by companies? (C) (NEW SM)

Refer problematic material

20. LIQUIDATION OF COMPANIES

Q.No.1. Define the "contributory" in a winding up. (A)

Refer problematic material

Q.No.2. Explain circumstances in which company may be wound up by Tribunal (Sec. 271). (B) (NEW SM)

Refer problematic material

Q.No.3. What are Overriding Preferential Payments [Sec. 326] (A) (NEW SM)

Refer problematic material

Q.No.4. Preferential Creditors (B) (NEW SM)

Refer problematic material

Q.No.5. Effect of Floating Charge [SECTION 332] (A) (NEW SM)

Refer problematic material

Q.No.6. Explain about B List contributories. (A) (NEW SM)

MASTER MINDS

Refer problematic material

Q.No.7. What are the contents of "Liquidators statement of account"? (B) (N15 - 4M)

The statement prepared by the liquidator showing receipts and payments of cash in case of voluntary winding up is called "Liquidators statement of account". There is no double entry involved in the preparation of liquidator's statement of account. It is only a statement though presented in the form of an account.

While preparing the liquidator's statement of account, receipts are shown in the following order:

1. Amount realised from assets are included in the prescribed order.
2. In case of assets specifically pledged in favour of creditors only the surplus from it. If any is entered as 'Surplus from Securities'.
3. In case of party paid shares, the equity shareholders should be called up to pay necessary amount if creditors' claims of preference shareholders cannot be satisfied with the available amount, Preference shareholders would be called upon to contribute for paying of creditors.
4. Amounts received from calls to contributors made at the time of winding up are shown on the Receipts side.
5. Receipts per Trading Account are also included on the Receipts side payments made to redeem securities and cost of execution and payments per Trading Account are deducted from total receipts.

Payments are made and shown in the following order.

1. Legal charges
2. Liquidator's expenses
3. Debenture holders (including interest up to the date of winding up if the company is insolvent and to the date of payment if it is solvent);
4. Creditors:
   a) Preferential (in actual practice, preferential creditors are paid before debenture holders having a floating charge)
   b) Unsecured creditors;
5. Preference shareholders (Arrears of dividends on cumulative preference shares should be paid to the date of commencement of winding up)
6. Equity shareholders.

Q.No.8. Write the Lists which should accompany the Statement of Affairs, in case of a winding up by Court. (A) (NEW SM, N15 - 4M)

The broad lines on which the Statement of Affairs is prepared are as following:

1. Includes assets on which there is no fixed charge at the value they are expected to realize.
2. Includes assets on which there is a fixed charge. The amount expected to be realised would be compared with the amount due to the Creditor concerned. Any surplus is to be extended to the other column. A deficit is to be added to unsecured creditors.
3. The total of assets in point (1) and any surplus from assets mentioned in point (2) is available for all the creditors.
4. From the total assets available the following should be deducted one by one
   a) Preferential creditors
   b) Debentures having a floating charge and
   c) Unsecured creditors.

   If a minus balance emerges, there would be deficiency as regards Creditors; otherwise there would be a surplus.
5. The amount of total paid up capital should be added and the figure emerging will be deficiency as regards members.

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21. FINANCIAL STATEMENTS OF INSURANCE COMPANIES

Q.No.1. Explain in short, the following principles and term of insurance business:
a) Principle of Indemnity;
b) Insurable interest;
c) Principle of "UBERRIMAE FIDEI";
d) Catastrophic Loss (A) (OLD PM, M16 - 6M)

Refer problematic material

Q.No.2. Write a short note on
i) Unexpired Risks Reserve ii) Re-insurance. (C) (NEW SM)

Refer problematic material

Q.No.3. Explain differences between Life Insurance and other forms of Insurance. (A) (NEW SM, M15 - 4M)

Refer Problematic material

Q.No.4. Define a) Average Policy, b) Comprehensive Policy, c) Excess Policy, d) Floating Policy (B) (N17 - 4M)

Refer problematic material

Q.No.5. Explain Classification of Life Insurance. (B) (NEW SM)

a) **Whole Life Assurance:** In whole life assurance, policy amount is paid only on the death of Insured.

b) **Term Assurance:** Here the policy amount is paid in "lump-sum" on maturity of the term of the Life Insurance Policy (say 20 years).

c) **Annuity:** On maturity of the policy, instead of a one shot "lump-sum" payment the policy amount is disbursed in instalments, generally monthly.

Q.No.6. Explain types of reinsurance Contracts. (A) (NEW SM, M18 (O) - 4M)

a) **Facultative Reinsurance:** It is that type of reinsurance whereby the contract relates to one particular risk and is expressed in a reinsurance policy. Each transaction under Facultative Reinsurance has to be negotiated individually and each party to the transaction has a free choice, i.e. for the ceding company to offer and the reinsurer to accept. The main drawback of this type of insurance is the volume of work involved and time taken to cover the risk.

b) **Treaty Insurance:** Under this type of reinsurance a Treaty agreement is entered into between ceding company and the re-insurer(s) whereby the reinsurances are within the limits of the Treaty. These limits can be monetary, geographical, section of business, etc. Under this contract it is obligatory for the re-insurer to accept all risks within the scope of this Treaty and it is obligatory for the ceding company to cede risks in accordance with the terms of the Treaty. Treaties can also be divided into two categories, viz. proportional treaties and non-proportional treaties.

Q.No.7. Explain the difference between Coinsurance and Reinsurance. (B) (NEW SM)

Refer problematic material

22. FINANCIAL STATEMENTS OF BANKING COMPANIES

Q.No.1. What is banking? (A) (NEW SM)

Banking: Under Section 5(b) of the said Act "Banking" means,

- **Accepting deposits** of money from public for the purpose of **lending or investing**
- These deposits are **repayable on demand** or otherwise, and can be withdrawn by cheque, draft or otherwise.

Q.No.2. What is a Banking Company? (A) (NEW SM)

Banking Company: Any bank which transacts this business as stated in section 5(b) of the act in India is called a banking company. However merely accepting public deposits by a company for financing its own business shall not make it a bank.

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Q.No.3. Illustrate services rendered by RBI to scheduled commercial banks. (B) (NEW SM)

a) The purchase, sale, and re-discounting of certain bills of exchange, or promissory notes.

b) Purchase and sale of foreign exchange.

c) Purchase, sale and re-discounting of foreign bills of exchange.

d) Making of loans and advances to scheduled banks.

e) Maintenance of accounts of the scheduled bank in its banking department and issue department.

f) Remittance of money between different branches of scheduled banks through the offices, branches or agencies of Reserve Bank free of cost or at nominal rates.

Q.No.4. What are the functions of a commercial Bank? (C) (NEW SM)

Some of the main functions of modern commercial banks are:

a) Receiving of money on deposit and providing facilities to constituents for payments by cheque.

b) Dealing in securities on its own account and on account of customers.

c) Lending of money by

  i) Making loans and advances,

  ii) Purchasing or discounting of bills.

d) Transferring money from place to place by -

  i) The issue of demand drafts, telegraphic transfers, traveller's cheque, etc.,

  ii) Collection of bills.

e) Issuing letters of credit.

f) Safe custody of securities and valuables.

g) Issuing guarantees.

h) Acting as executors and trustees sometimes through subsidiary companies formed for that purpose.

i) Buying, selling and dealing in foreign exchange.

j) Acting as managers for issue of capital by companies and performing functions incidental thereto.

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Q.No.5. Explain Prohibition of Trading by banking companies. (B) (NEW SM)

A banking company cannot directly or indirectly deal in the buying or selling or bartering of goods except in connection with the realization of security given to or held by it. However, it may engage in any trade or buy, sell or barter goods in connection with the bills of exchange received for collection or negotiation or with such of its aforesaid business.

Q.No.6. Explain Disposal of Non-Banking Assets. (B) (NEW SM)

1. A banking company in the course of its business may have to take possession of certain asset charged in its favour on account of the failure of a debtor to repay the loan.

2. A banking company can only acquire immovable property for its own use.

3. However, other immovable properties acquired must be disposed off within seven years from the date of acquisition. The Reserve Bank of India at its discretion can extend this period not exceeding five years where it is satisfied that such extension would be in the interests of the depositors of the banking company.

4. Income/loss from such an asset has to be shown separately in the profit and loss account of the banking company.

Q.No.7. What are restrictions in relation to Capital and Reserves of a Banking company? (A) (NEW SM)

a) **Paid Up Capital:** The Minimum Paid-up Capital for a Banking Company is as under

Condition	Incorporated in India		Incorporated outside India	
Place of Business includes Mumbai and Kolkata	Yes	No	Yes	No
Aggregate of Paid Up Capital and Reserves	Rs. 10 lakhs	Rs. 1 Lakh + Rs. 10,000 for every place of business in place of HO + 25,000 for every other place of business subject to a maximum of 5 Lakhs	Rs. 20 Lakhs	Rs. 15 Lakhs

b) **Deposit with RBI:** An amount equivalent to the Minimum Amount of Paid-up Capital and Reserves should be deposited with the RBI, either in Cash or in the form of Unencumbered Approved Securities.

c) **Relationship between Authorized, Subscribed and Paid Up Capital:**

i) Minimum Subscribed Capital = 50% of Authorized Share Capital.

ii) Minimum Paid up Capital = 50% of the Subscribed Share Capital.

Note: Presently, Minimum Paid Up Capital for a New Bank in Private Sector is 500 Lakhs.

MASTER MINDS

Q.No.8. Write short note on Reserve funds in the context of banking Companies. (B) (NEW SM)

a) **Transfer to Statutory Reserve:** Banking companies incorporated in India should transfer at least 25% of the profits before declaring any dividend.

b) **Appropriation:** Any appropriation out of the said reserve or securities Premium account should be reported to RBI within 21 days along with the reasons therefor.

Q.No.9. Write short notes on (a) Cash Reserve Ratio and (b) Statutory Liquidity Ratio. (A) (NEW SM)

Refer Problematic material

Q.No.10. What are the Main characteristics of bank's system of book keeping? (A) (NEW SM)

a) **Voucher posting:** Vouchers are nothing but loose leaves of journals or cash books on which transactions are recorded as they occur. Entries in the personal ledger are made directly from vouchers instead of being posted from the books of prime entry.

b) **Voucher summary sheets:** The vouchers entered into different personal ledgers each day are summarized on summary sheets, totals of which are posted to the control accounts in the general ledger.

c) **Daily trial balance:** The general ledger trial balance is extracted and agreed every- day.

d) **Continuous checks:** All entries in the detailed personal ledgers and summary sheets are checked by persons other than those who have made the entries. A considerable force of such check is employed, with the general result that most clerical mistakes are detected before another day begins.

e) **Control Accounts:** A trial balance of the detailed personal ledgers is prepared periodically, usually every two weeks, agreed with general ledger control accounts.

f) **Double voucher system:** Two vouchers are prepared for every transaction not involving cash - one debit voucher and another credit voucher.

Q.No.11. Explain Slip System or Types of slips used in bank book keeping. (B) (NEW SM)

1. **Pay-in-slip:**

   a) When a customer deposits money with a bank, he has to fill-up a printed pay-in-slip form and submit it to the **'receiving cashier'** of the bank along with cash.

   b) The form of pay-in-slip has two parts. The left-hand side portion of the pay-in-slip is called **'counterfoil'.**

   c) It is returned by the receiving cashier after he receives and counts the cash.

   d) The counterfoil bears signature of the receiving cashier and it is duly stamped with the rubber stamp of the bank.

   e) Pay-in-slip serves as an acknowledgement of the deposit by the customer with the bank. The remaining portion of pay-in-slip that is, its right-hand-side part remains with the bank for making entry in the cash book, after which it is given to the 'personal accounts ledger keeper' for crediting the ledger account of the customer.

2. **Withdrawal slip or cheque:**

   a) When a customer withdraws money from the bank, he has to fill-up or write a cheque or withdrawal form and submit it to the paying cashier who makes payment, after checking the signature of the customer and adequacy of amount in his ledger account.

   b) The paying cashier credits the cash account and the ledger-keeper debits the customer's account.

MASTER MINDS

3. **Dockets:**

   a) Sometimes the bank staff also prepares slips for making entries in the ledger accounts for which there are no original vouchers.

   b) For example, the loan department of a bank prepares vouchers when the interest is due. This slip or voucher is known as docket.

Q.No.12. Explain the need of slip system. (B) (NEW SM)

The need for slip system arises due to following reasons:

a) **Updated Accurate Accounts:** The bank must keep its customers' accounts accurate and up-to-date because a customer may present a cheque or withdrawal slip anytime during business hours of the bank.

b) **Division of Work**: As the number of transactions in bank is very large, the slip system permits the distribution of work of posting simultaneously among many persons of the bank staff.

c) **Smooth Flow of Work**: The accounting work moves smoothly without any interruption.

Q.No.13. Mention the condition when a cash credit overdraft account is treated as 'out of order'. (A) (OLD PM, N15 - 4M)

A cash credit overdraft account is treated as NPA if it remains out of order for a period of more than 90 days. An account is treated as 'out of order' if any of the following conditions is satisfied:

a) The outstanding balance remains continuously in excess of the sanctioned limit/drawing power.

b) Though the outstanding balance is less than the sanctioned limit/drawing power –

 i) There are no credits continuously for more than 90 days as on the date of balance sheet; or

 ii) Credits during the aforesaid period are not enough to cover the interest debited during the same period.

Q.No.14. What are "Non-Performing Assets" (NPA)? When does an Asset become NPA? (A) (NEW SM)

Refer problematic material

Q.No.15. Write short notes on Rebate on Bills Discounted. (B) (NEW SM)

Refer problematic material

Q.No.16. Write short notes on Asset Classification and Provisioning Norms for Loans and Advances. (A) (OLD PM, M16 - 4M)

Refer problematic material

23. BUY - BACK OF SECURITIES AND EQUITY SHARES WITH DIFFERENTIAL RIGHTS

MASTER MINDS

Q.No.1. How to calculate the Maximum no. of shares that can be Bought Back. (A) (NEW SM)

THREE TEST CONDITIONS: Refer problematic material

Q.No.2. What are the three sources of funds for Buy-back [SECTION. 68(1)] (A)

Refer problematic material

Q.No.3. Conditions for Buy back (Section 68) (A)

Refer problematic material

24. ACCOUNTING FOR EMPLOYEE STOCK OPTION PLAN

Q.No.1. What is Employee Stock Option Plan? Explain the importance of such plans in the modern time. (B) (NEW SM)

Refer problematic material

Q.No.2. What are the various forms of employee share based payments? (C)

Refer problematic material

Q.No.3. What is objective and importance of employee share based payments? (A)

Refer problematic material

Q.No.4. Types of share based Payments. (B)

Refer problematic material

25. AMALGAMATION OF COMPANIES

Q.No.1. Difference between Amalgamation, Absorption and External Reconstruction. (A) (NEW SM)

Refer problematic material

Q.No.2. Difference between amalgamation in the nature of merger and amalgamation in the nature of purchase. (A) (NEW SM)

Refer problematic material

Q.No.3. What are the conditions to be satisfied for the Merger. (A)

Refer problematic material

Q.No.4. Explain the two methods of Accounting for Amalgamations. (A)

Refer problematic material

Q.No.5. What is Negative Goodwill in case of Amalgamation is in the nature of Purchase? (C)

1. **Capital Reserve:** If the consideration paid for amalgamation is less than the Net Assets of the Transferor Company, the difference is called **Negative Goodwill**. This should be recognised in the Transferee Company's Financial Statements as **Capital Reserve**.
2. **Example:** Dhruva Ltd acquired the Net Assets of Uttama Ltd for a total consideration of Rs. 25 Lakhs. The Fair Value of Net Assets of Uttama Ltd is Rs.40 Lakhs .In the above case, the difference of Rs.15 Lakhs constitutes **Negative Goodwill**. This should be recognised as Capital Reserve in the Financial Statements of Dhruva Ltd.

Q.No.6. List the disclosure requirements of AS 14. (C)

Refer problematic material

26. NON-BANKING FINANCIAL COMPANIES

Q.No.1. Define Non-Banking Financial Companies (NBFC)? (A) (NEW SM)

Refer problematic material

Q.No.2. Explain types of Non-Banking Financial Companies for administering prudential Regulations (NBFC). (C) (NEW SM)

Refer problematic material

MASTER MINDS

Q.No.3. What is Residuary Non-banking Company? (C) (NEW SM)

A non-banking institution which is a company and has its principal business of receiving deposits under any scheme or arrangement in one lump sum or in installments by way of contributions or any other manner, or lending in any manner is also a non-banking financial company.

Q.No.4. Explain the concept of Financial Activity as "Principal Business" in the context of NBFC's. (B)

1. Financial Activity as Principal Business is when a Company's
   a) Financial Assets constitute more than 50% of the Total Assets, and
   b) Income from Financial Assets constitute more than 50% of the Gross Income.
2. The term "Principal Business" is not defined by the RBI Act. RBI has defined it so as to ensure than only Companies pre-dominantly engaged in Financial Activity get registered with it and are regulated and supervised by it.
3. So, Companies engaged in other activities e.g. Agricultural Operations, and doing some financial business in a small manner, will not be regulated by RBI.

Q.No.5. Distinction between an NBFC and a Bank. (A) (NEW SM)

Refer problematic material

MASTER MINDS

Q.No.6. What is the significance of Certificate of Registration for NBFC's? (C) (NEW SM)

1. An NBFC can commence or carry on the business of a Non-Banking Financial Institution only after obtaining a Certificate of Registration issued by the RBI.
2. A Company incorporated under the Companies Act, and desirous of commencing business of Non-Banking Financial Institution should comply with the following -
   a) It should be a Company registered under the Companies Act,
   b) It should have a minimum Net Owned Fund of Rs.200 Lakhs.

Q.No.7. Explain Minimum Net Owned Funds/ Owned Fund/ Net owned. (A) (NEW SM)

Refer problematic material

Q.No.8. Explain the elements of prudential regulations w.r.t. NBFC. (C) (NEW SM)

Refer problematic material

Q.No.9. What is Asset Classification? (C) (NEW SM)

Refer problematic material

Q.No.10. What is Non-Performing Asset (NPA)? (A) (NEW SM)

Refer problematic material

Q.No.11. Write short notes on Capital Adequacy Ratio & Requirements? (B)

Refer problematic material

Q.No.12. Write a short notes on Earning value (Equity share)? (B) (NEW SM)

Earning value: means the value of an equity share computed by taking the average of profits after tax as reduced by the preference dividend and adjusted for extra-ordinary and non-recurring items, for the immediately preceding three years and further divided by the number of equity shares of the investee company and capitalized at the following rate:

a) In case of predominantly manufacturing company, eight percent;

b) In case of predominantly trading company, ten per cent; and

c) In case of any other company, including non-banking financial company, twelve per cent;

27. MUTUAL FUNDS

Q.No.1. Explain Mutual Fund. (B)

Refer problematic material

Q.No.2. Explain the terms used in Mutual Funds? (C) (NEW SM)

MASTER MINDS

Net Asset Value (NAV): Net asset value is the market value of the assets of the scheme minus its liabilities. The per unit NAV is the net asset value of the scheme divided by the number of units outstanding on the valuation date.

Sale Price (SP): It is the price you pay when you invest in a scheme; also called offer price. It may include a sales load

Repurchase Price: It is the price at which units under open-ended schemes are repurchased by the Mutual Fund. Such prices are NAV related.

Redemption Price: It is the price at which close-ended schemes redeem their units on maturity. Such prices are NAV related.

Sales Load: It is a charge collected by a scheme when it sells the units. Also called 'Front-end' load. Schemes that do not charge a load are called 'No Load' schemes.

Repurchase or 'Back-end' Load: It is a charge collected by a scheme when it buys back the units from the unit holders.

The Association of Mutual Funds in India (AMFI): The Association is dedicated to developing the Indian Mutual Fund Industry on professional, healthy and ethical

Q.No.3. What are the types of Mutual Funds based on Maturity period? (C) (NEW SM)

Refer problematic material

Q.No.4. What are the types of Mutual Funds based on nature? (C) (NEW SM)

1. **Equity fund:** The aim of growth funds is to provide capital appreciation over the medium to long-term. Such schemes normally invest a major part of their corpus in equities. Such funds have

comparatively high risks. The Equity Funds are sub-classified depending upon their investment objective, as follows:

Diversified Equity Funds

Mid-Cap Funds

Sector Specific Funds

Tax Savings Funds (ELSS)

2. **Debt funds:** The objective of these Funds is to invest in debt papers. Government authorities, private companies, banks and financial institutions are some of the major issuers of debt papers. By investing in debt instruments, these funds ensure low risk and provide stable income to the investors. These funds are not affected because of fluctuations in equity markets. Debt funds are further classified as:

   - **Income Funds:** Invest a major portion into various debt instruments such as bonds, corporate debentures and Government securities.
   - **Monthly Income Plans (MIPs):** Invests maximum of their total corpus in debt instruments while they take minimum exposure in equities. It gets benefit of both equity and debt market. These scheme ranks slightly high on the risk return matrix when compared with other debt schemes.
   - **Short Term Plans (STPs):** Meant for investment horizon for three to six months. These funds primarily invest in short term papers like Certificate of Deposits (CDs) and Commercial Papers (CPs). Some portion of the corpus is also invested in corporate debentures.
   - **Liquid Funds:** Also known as Money Market Schemes, These funds provide easy liquidity and preservation of capital. These schemes invest in short-term instruments like Treasury Bills, inter-bank call money market, CPs and CDs.

3. **Balanced funds:** As the name suggest they are a mix of both equity and debt funds. They invest in both equities and fixed income securities, which are in line with pre-defined investment objective of the scheme.

4. **Money Market or Liquid Fund:** These funds are also income funds and their aim is to provide easy liquidity, preservation of capital and moderate income. These schemes invest exclusively in safer short-term instruments such as treasury bills, certificates of deposit, commercial paper and inter-bank call money, government securities, etc.

5. **Gilt Funds**: These funds invest exclusively in government securities. Government securities have no default risk. NAVs of these schemes also fluctuate due to change in interest rates and other economic factors as is the case with income or debt oriented schemes.

MASTER MINDS

Q.No.5. What is the types of Mutual Funds schemes based on Investment objective? (C) (NEW SM)

Refer problematic material

Q.No.6. Explain other types of mutual fund schemes based on objective. (C) (NEW SM)

Refer problematic material

Q.No.7. Explain Fund Of Funds (FOF)? (B) (NEW SM)

A scheme that invests primarily in other schemes of the same mutual fund or other mutual funds is known as a FOF scheme. An FOF scheme enables the investors to achieve greater diversification through one scheme. It spreads risks across a greater universe.

Q.No.8. Explain Load or Non-Load? (B) (NEW SM)

A Load Fund is one that charges a percentage of NAV for entry or exit. That is, each time one buys or sells units in the fund, a charge will be payable. This charge is used by the mutual fund for marketing and distribution expenses. Suppose the NAV per unit is Rs.10. If the entry as well as exit load charged is 1%, then the investors who buy would be required to pay Rs.10.10 and those who offer their units for repurchase of the mutual fund will get only Rs.9.90 per unit. The investors should take the loads into consideration while making investment as these affect their yields/returns. However, the investors should also consider the performance track record and service standards of the mutual fund which are more important. Efficient funds may give higher returns in spite of loads.

A no-load fund is one that does not charge for entry or exit. It means the investors can enter the fund/scheme at NAV and no additional charges are payable on purchase or sale of units.

Q.No.9. What do you mean by "Net Asset Value" (NAV) in case of mutual fund units? (A) (M09 - 5M)

Refer problematic material

Q.No.10. Explain restrictions on investments made by Mutual Funds. (C)

Instrument / Investment in	Quantum of Investment and
a) Debt instruments of a single issuer and Mortgaged backed Securitized Debt (Rated above Grade by a Credit Rating agency)	• 10% of NAV of the Scheme • 12% with prior approval of Board of Trustees & AMC • Such limit is not applicable to Govt. Securities and Money Market Instruments.
b) Unrated Debt Instruments (Prior Approval of Board of Trustees and AMC required)	**Individually (for each issuer):** 10% of NAV of Scheme **Aggregate Investment:** 25% of the NAV of Scheme
c) Share Capital of a Company (carrying voting rights)	10% of the Company's Paid Up Capital
d) Scheme under the same AMC or other Mutual Fund under the same management or schemes of other AMC	5% of the NAV of the Mutual Fund
e) Equity Shares or Equity Related Instruments of a Company	• 10% of the NAV of the Scheme • Not applicable to investments in index fund or sector or Industry Specific scheme
f) Unlisted Equity Shares / Equity Related Instrument - Open Ended Scheme - Close Ended Scheme	 5% of the NAV of the Scheme 10% of the NAV of the Scheme

MASTER MINDS

Q.No.11. Write short notes on:
a) Dividend Equalization for a mutual fund
b) Open ended and Closed ended schemes of mutual funds. (A) (CA FINAL OLD PM)

a) **Dividend Equalisation for a mutual fund:** New investors are not entitled to any share of the income of a mutual fund scheme which arose before they bought their units. However, at the end of each distribution period the fund management allocates the same amount from the income of the fund to each unit. To compensate for this, an equalisation payment is added to the cost of new units. This is the amount of income that has arisen up to the date of purchase of the unit.

Because these payments are included in the amount available for distribution they are effectively repaid to the purchaser. The purchaser's dividend voucher at the end of the first distribution period should show the amount of the returned equalisation payment. This payment is not income. It should not be treated as capital distribution. It is a return of the initial price paid and it should, therefore, be deducted from the price paid when computing the chargeable gain on eventual disposal.

b)

i) **Open-Ended Mutual Funds:** An open-end fund is one that is available for subscription and repurchase all through the year. These do not have a fixed maturity. Investors can conveniently buy and sell units at Net Asset Value ("NAV") related prices which are declared on a daily basis. The key feature of open-end schemes is liquidity.

ii) **Close - Ended Schemes:** These schemes have a pre-specified maturity period. One can invest directly in the scheme at the time of the initial issue. Depending on the structure of the scheme there are two exit options available to an investor after the initial offer period closes. Investors can transact (buy or sell) the units of the scheme on the stock exchanges where they are listed. The market price at the stock exchanges could vary from the net asset value (NAV) of the scheme on account of demand and supply situation, expectations of unit holder and other market factors. Alternatively some close-ended schemes provide an additional option of selling the units directly to the Mutual Fund through periodic repurchase at the schemes NAV; however one cannot buy units and can only sell units during the liquidity window. SEBI Regulations ensure that at least one of the two exit routes is provided to the investor.

Q.No.12. A Mutual Fund has launched a new scheme "All-purpose scheme". The Mutual Fund Asset Management Company wishes to invest 25% of the NAV of the scheme in an unrated debt instrument of a company Y Ltd. which has been playing above average returns for the past many years. The promoters of the company seek your professional advise in light of the Regulations of SEBI. Will the position change in case the debt instruments of the company Y Ltd are rated? (A) (NEW SM, N18 (N) - 5M)

Refer problematic material

MASTER MINDS

28. CONSOLIDATED FINANCIAL STATEMENTS

Q.No.1. Explain the term Consolidated Financial Statements (CFSs). (A) (NEW SM)

Refer problematic material

Q.No.2. Explain Wholly Owned and Partly Owned Subsidiaries. (B) (NEW SM)

S.No.	Wholly owned subsidiary company	Partly owned subsidiary company
1.	A wholly owned subsidiary company is one in which all the shares are owned by the holding company.	In a partly owned subsidiary, all the shares of subsidiary company are not acquired by the holding company i.e. only the majority of shares (i.e., more than 50%) are owned by the holding company.
2.	100% voting rights are vested by the holding company.	Voting rights of more than 50% but less than 100% are vested by the holding company.
3.	There is no minority interest because all the shares with voting rights are held by the holding company.	There is a minority interest because less than 50% shares with voting rights are held by outsiders other than the holding company.

Q.No.3. What are the Exclusions from preparation of Consolidated Financial Statements. (or) When consolidation is not required. (B) (NEW SM)

Refer problematic material

Q.No.4. What are the advantages of CFS. (A) (NEW SM)

The main advantages of consolidation are given below:

i) **Single Source Document:** From the consolidated financial statements, the users of accounts can get an overall picture of the holding company and its subsidiaries. Consolidated Profit and Loss Account gives the overall Profitability of the group.

ii) **Intrinsic value of share:** Intrinsic share value of the holding company can be calculated directly from the Consolidated Balance Sheet.

iii) **Acquisition of Subsidiary:** The Minority Interest data of the Consolidated Financial Statement indicates the amount payable to the outside shareholders of the subsidiary company at book value which is used as the starting point of bargaining at the time of acquisition of a subsidiary by the holding company.

iv) **Evaluation of Holding Company in the market:** The overall financial health of the holding company can be judged using Consolidated Financial Statements. Those who want to invest in the shares of the holding company or acquire it, need such consolidated statement for evaluation.

Q.No.5. What are the Components of CFS. (B) (NEW SM)

- Consolidated Balance sheet
- Consolidated statement of Profit & loss Account
- Consolidated Cash flow statement (in case parent presents cash flow statement)
- Notes and Statements and Explanatory schedules

MASTER MINDS

Q.No.6. Define Upstream & Downstream Transactions. (A) (NEW SM)

Upstream transaction: It is a transaction in which the subsidiary company sells goods to holding company. In the case of upstream transaction, goods are sold by the subsidiary to holding company; profit is made by the subsidiary company, which is ultimately shared by the holding company and the minority shareholders. In such a transaction, if some goods remain unsold at the balance sheet date, the unrealized profit on such goods should be eliminated from minority interest as well as from consolidated profit on the basis of their share-holding besides deducting the same from unsold Inventory.

Downstream transaction: Holding company is the seller and subsidiary company is the buyer. In the case of downstream transaction the whole profit is earned by the holding company, therefore whole unrealized profit should be adjusted from unsold Inventory account and consolidated profit and loss account only irrespective of the percentage of the shares held by the parent.

29. VALUATION OF GOODWILL

Q.No.1. What is meant by valuation? (B) (NEW SM)

Refer problematic material

Q.No.2. Explain bases of valuation? (C) (NEW SM)

Refer problematic material

Q.No.3. What are the types of values? (C) (NEW SM)

The following are the types of value:

a) Going-concern value is the value of a firm as an operating business.

b) Liquidation value is the projected price that a firm would receive by selling its assets if it were going out of business.

c) Book value is the value of an asset as carried on a balance sheet.

d) Market value is the price at which buyers and sellers trade similar items in an open market place.

e) Fair market value is the price that a given property or asset would fetch in the market place, subject to the following conditions: (i) Prospective buyers and sellers are reasonably knowledgeable about the asset; they are behaving in their own best interests and are free of undue pressure to trade. (ii) A reasonable time period is given for the transaction to be completed.

f) Intrinsic value is the value at which an asset should sell based on applying data inputs to a valuation theory or model.

g) Extrinsic value is another variety. It is the difference between an option's price and the intrinsic value.

Q.No.4. What are the approaches of valuation. (A) (NEW SM)

Three generally accepted approaches to valuation are as follows:

1. Cost Approach: e.g. Adjusted Book Value
2. Market Approach: e.g. Comparables
3. Income Approach: e.g. Discounted Cash Flow

MASTER MINDS

Each approach has advantages and disadvantages. Generally there is no "right" answer to a valuation problem. Valuation is very much an art as much as a science! These approaches can be briefly discussed as:

Cost Approach:

This technique involves restating the value of individual assets to reflect their fair market values. It is useful for valuing holding companies where assets are easy to value (for example, securities) and less useful for valuing operating businesses. The value of an operating company is generally greater than that of its assets. The difference between that value of the expected cash flows and that of its assets is called the "going concern value". It is a useful approach when the purpose of the valuation is that the business will be liquidated and Trade payables must be satisfied. While doing this valuation following adjustments to book value can be made:

- Inventory undervaluation
- Bad debt reserves
- Market value of plant and equipment
- Patents and franchises
- Investments in affiliates
- Tax-loss carried forward

Market Approach: The market approach, as the name implies, relies on signs from the real market place to determine what a business is worth. It is to be understood that business does not operate in vacuum. If what one does is really great, then chances of others doing the same or similar things are more. If one is looking to buy a business, one decides what type of business he is interested in and then looks around to see what the "going rate" is for businesses of this type. If one is planning to sell business, he will check the market to see what similar businesses sell for. So the market approach to valuing a business is a great way to determine its fair market value - a monetary value likely to be exchanged in an arms-length transaction, when the buyer and seller act in their best interest.

Income approach: The income approach considers the core reason for running a business i.e. making money. Here the so-called economic principle of expectation applies. Since the business value must be established in the present, the expected income and risk must be translated to today. The income approach generally uses two ways to do this translation: (i) Capitalization and (ii) Discounting.

Q.No.5. What is goodwill and explain its types? (C) (NEW SM)

Refer problematic material

Q.No.6. Explain accounting method in valuation of goodwill? (C) (NEW SM)

Refer problematic material

Q.No.7. What is capital employed? (B) (NEW SM)

Refer problematic material

Q.No.8. Explain the Significant measurement bases in brief? (C) (NEW SM)

Main Measurement bases are:

- Historical cost;
- Current cost;
- Realizable (settlement) value;
- Present value.

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THE END